

UTAH STATE AUDITOR'S OFFICE
FINANCIAL REPORTING ENTITY WORKSHEET
(GASB Statement 14 & 39)

W/P Ref: _____

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(Revised 1/06)

Potential Component Unit:		Year End:
Contact Name: _____ Title _____		Phone #: _____
Prepared By: Date: _____	Reviewed By: Date: _____	Reviewed By: Date: _____

INTRODUCTION

GASB Statements 14 & 39 establish standards for defining and reporting on the financial reporting entity. GASB 14 also establishes standards for reporting participation in joint ventures. These standards apply to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments. They also apply to the separately issued financial statements of governmental component units. In addition, the Statement should be applied to governmental and nongovernmental component units (CU) when they are included in a governmental financial reporting entity.

The financial reporting entity consists of (a) the primary government (PG), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A PG is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the PG. A PG may also be financially accountable for governmental organizations that are fiscally dependent on it.

A PG has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the PG (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Other organizations – Certain organizations warrant inclusion because of the nature and significance of their relationship with the PG. A legally separate, tax-exempt organization is a CU if all of the following criteria are met: a) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the PG, the PG's component units, or its constituents; 2) the PG, or its CU, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; 3) the economic resources received or held by an individual organization that the PG is entitled to, or has the ability to otherwise access, are significant to the PG. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the PG.

Most CU's should be included in the financial reporting entity by discrete presentation. Some CU's, despite being legally separate from the PG, are so intertwined with the PG that they are, in substance, the same as the PG and should be reported as part of the PG by blended presentation.

There may be organizations that do not meet the definition for inclusion in the financial reporting entity. They should, nevertheless, be reported as a fiduciary fund of the primary government if the primary government has a fiduciary responsibility for them.

CONCLUSION (Check one)

This potential component unit should be reported (in the financial statements of the primary government) in the following manner:

- | | |
|---|---|
| <p>_____ - Excluded From Presentation</p> <p>_____ - Related Organization Footnote Disclosure</p> | <p>_____ - Reported as Part of the Primary Government (not as a CU)</p> <p>_____ - Blended with Primary Government (as a CU)</p> <p>_____ - Discrete Component Unit</p> |
|---|---|

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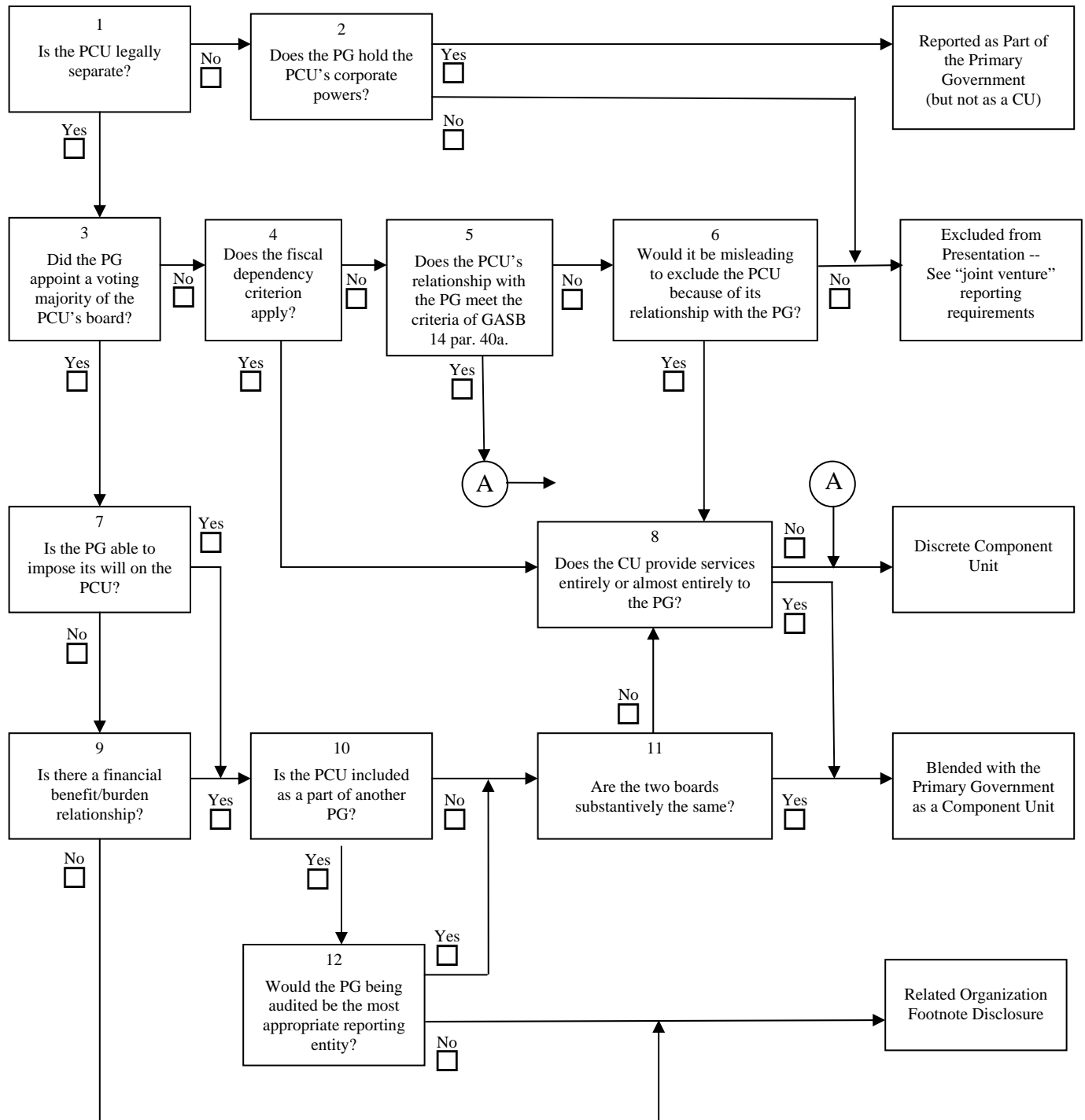
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FINANCIAL REPORTING ENTITY FLOWCHART

Check the appropriate boxes:



PCU - Potential Component Unit
PG - Primary Government

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FLOWCHART QUESTIONS

These questions correspond to the flowchart questions on the previous page. ¶ numbers refer to GASB Statement No. 14.

1. **Is the PCU legally separate? (¶15)** _____ Yes _____ No _____ N/A

If answer is "Yes," proceed to question #3., otherwise proceed to next question.

Consider:

Do either of these conditions exist?

_____ Yes _____ No _____ N/A

- a. Per review of the (check as applicable) _____ corporate charter or _____ *Utah Code* (provide *Code* reference _____), the PCU was created as a "body corporate" or a "body corporate and politic."
- b. The PCU possesses the corporate powers that would distinguish it as being legally separate from the PG. [See description of "corporate powers" in question #2. below.]

Explanations:

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2. **Does the PG hold the PCU's corporate powers? (¶15)** _____ Yes _____ No _____ N/A

If answer is "Yes," proceed to page #1 of this form and conclude.

Consider:

Corporate powers generally give an organization the capacity to have a name; the right to sue and to be sued in its own name without recourse to a state or local governmental unit; and the right to buy, sell, lease, and mortgage property in its own name.

Explanations:

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3. **Did the PG appoint a voting majority of the PCU's board (¶22-24)** _____ Yes _____ No _____ N/A

If answer is "Yes," proceed to question #7., otherwise proceed to next question.

Consider:

Do all of the following conditions exist?

_____ Yes _____ No _____ N/A

- a. The PG appoints a controlling majority of the PCU's governing board.
- b. The legal provisions for appointment of the PCU's officials provide for continued appointment authority, or if not, the PG has the ability to unilaterally abolish the PCU.
- c. The PG's appointment authority is substantive and not severely limited by a nominating or confirming process.

Explanations:

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4. **Does the fiscal dependency criterion apply? (§16-18, 21b)** _____ Yes _____ No _____ N/A
If answer is "Yes," proceed to question #8., otherwise proceed to next question.

Consider:

- a. Does the PG have substantive authority to do any of the following: _____ Yes _____ No _____ N/A
- 1) Approve and modify the PCU's budget.
 - 2) Approve the PCU's tax rates or other rates or charges.
 - 3) Approve the PCU's issuance of bonded debt, if it is legal to issue bonded debt.
- b. PCU dependence upon PG funding is not considered when answering this question. However, this may be considered in answering question #6.

Explanations:

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5. **Does the PCU's relationship with the PG meet the criteria of §40a?** _____ Yes _____ No _____ N/A
If answer is "Yes," the PCU should be included as a discrete component unit. If answer is "No," proceed to question #6.

GASB 14 §40a Criteria to Consider:

Is the PCU a tax exempt organization that meets all of the following:

- 1) The economic resources received or held by the PCU are entirely or almost entirely for the direct benefit of the PG, its component units, or its constituents. _____ Yes _____ No _____ N/A
- 2) The PG, or its CU, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the PCU. The ability to otherwise access the resources of an organization does not necessarily imply control over that organization's resources; rather it entails a broader concept. As noted in paragraph 29 of Statement 14, the ability to access the resources of an organization – not necessarily whether there was an actual transaction during the period – is the important factor for determining when a primary government is entitled to an organization's resources. A PG's ability to otherwise access may be demonstrated in several ways. For example, the PG or its CU historically may have received, directly or indirectly, a majority of the economic resources provided by the organization, the PCU previously may have received and honored requests to provide resources to the PG, or the PCU is a financially interrelated organization, a recipient organization that has a duty to hold and manage assets for the benefit of the PG or its CU in accordance with a charitable trust agreement, as defined by FASB Statement No. 136. _____ Yes _____ No _____ N/A
- 3) The economic resources received or held by the PCU that the PG, or its component unit, is entitled to, or has the ability to otherwise access, are significant to the PG. _____ Yes _____ No _____ N/A

Explanations:

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6. **Would it be misleading to exclude the PCU because of its relationship with the PG? (§39-41)** _____ Yes _____ No _____ N/A

If answer is "Yes," proceed to question #8., otherwise proceed to page #1 of this form and conclude. Also, if answer is "No," consider the joint venture reporting requirements in ¶69-78.

Consider:

- a. Is the nature and significance of the relationship between the PCU and the PG such that exclusion from the financial reporting entity would render the PG's financial statements incomplete or misleading? _____ Yes _____ No _____ N/A
- b. Some specific criteria that may be considered include the following:
- 1) Was the PCU created to provide temporary fiscal assistance to a PG? _____ Yes _____ No _____ N/A
- 2) Does the PCU issue debt on behalf of the PG and collect dedicated revenues to pay off the PG's debt? _____ Yes _____ No _____ N/A
- 3) Does the temporary nature of the PCU emphasize that the debt and revenues are, in substance, the debt and revenues of the PG? _____ Yes _____ No _____ N/A
- 4) Is the PCU so closely related to or so financially integrated with the PG that it would be misleading to exclude? _____ Yes _____ No _____ N/A

Explanations:

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7. **Is the PG able to impose its will on the PCU? (§25-26)** _____ Yes _____ No _____ N/A

If answer is "Yes," proceed to question #10., otherwise proceed to question #9.

Consider:

- a. Does the PG have the ability to do any of the following: _____ Yes _____ No _____ N/A
- 1) Remove appointed members of the PCU's board at will?
- 2) Modify or approve the budget of the PCU?
- 3) Modify or approve rate or fee changes affecting revenues?
- 4) Veto, overrule, or modify the decisions (other than those in 2) and 3) above) of the PCU's governing body?
- 5) Appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the PCU?
- b. This criterion is based on the PG's ability or authority, not necessarily the demonstrated ability, to impose its will on the PCU.
- c. Other conditions may also indicate that a PG has the ability to impose its will on a PCU.

Explanations:

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8. **Does the component unit provide services entirely or almost entirely to the PG? (§53b)** _____ Yes _____ No _____ N/A

If answer is "Yes," proceed to page #1 of this form and conclude.

Consider:

Do either of these conditions exist?

- a. [Direct Services] The PCU provides direct services entirely, or almost entirely, to the PG. _____ Yes _____ No _____ N/A

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- b. [Exclusive, indirect benefit] The PCU provides services exclusively, or almost exclusively, which benefit the PG even though the PCU does not provide the services directly to the PG?

Explanations:

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9. **Is there a financial benefit/burden relationship? (§27-33)**

_____ Yes _____ No _____ N/A

If answer is "No," proceed to page #1 of this form and conclude; otherwise, proceed to next question.

Consider:

Do any of the following conditions exist, either directly or indirectly, for the PG or for any of the PG's component units? (A transaction did not have to occur in order to meet any of the following.)

_____ Yes _____ No _____ N/A

- a. Legally entitled to or can otherwise access the PCU's resources (other than a residual interest in the event of a dissolution).
- b. Legally obligated, or has otherwise assumed the obligation, to finance the deficits of the PCU.
- c. Legally obligated, or has otherwise assumed the obligation, to provide financial support to the PCU.
- d. Obligated "in some manner" for the debt of the PCU. (Any of the following conditions would indicate that a PG is obligated "in some manner.")
 - 1) The PG is legally obligated to honor deficiencies to the extent that proceeds from other default remedies are insufficient.
 - 2) The PG is required to temporarily cover deficiencies with its own resources until funds from the primary repayment source or other default remedies are available.
 - 3) The PG is required to provide funding for reserves maintained by the debtor PCU, or to establish its own reserve or guarantee fund for the debt.
 - 4) The PG is authorized to provide funding for reserves maintained by the debtor PCU or to establish its own reserve or guarantee fund and the PG establishes such a fund. (If a fund is not established, the considerations in 6) and 7) below may nevertheless provide evidence that the PG is obligated "in some manner.")
 - 5) The PG is authorized to provide financing for a fund maintained by the debtor PCU for the purpose of purchasing or redeeming the PCU's debt, or to establish a similar fund of its own, and the PG establishes such a fund. (If a fund is not established, the considerations in 6) and 7) may nevertheless provide evidence that the PG is obligated "in some manner.")
 - 6) The debtor PCU explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default the PG may cover deficiencies although it has no legal obligation to do so. That is, the bond offering statement may specifically refer to a law that authorizes the PG to include an appropriation in its budget to provide funds, if necessary, to honor the debt of the PCU.
 - 7) Legal decisions within the state or previous actions by the PG related to actual or potential defaults on another organization's debt make it probable that the PG will assume responsibility for the debt in the event of default.

Explanations:

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10. **Is the PCU included as a part of another PG? (§38)** _____ Yes _____ No _____ N/A
If answer is "Yes," proceed to question #12., otherwise proceed to next question.

Consider:

In some instances, the financial accountability criteria indicate that a PCU is a component unit of a particular PG. However, that PCU may also be fiscally dependent on another state or local government. However, a PCU should be included as a component unit of only one reporting entity.

Explanations:

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11. **Are the two boards substantively the same? (§53a)** _____ Yes _____ No _____ N/A
If answer is "No," proceed to question #8., otherwise proceed to page #1 of this form and conclude.

Consider:

"Substantively the same" means sufficient representation of the PG's entire governing body on the component unit's governing body to allow complete control of the component unit's activities. This criterion will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body.

Explanations:

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12. **Would this PG be the most appropriate reporting entity? (§38)** _____ Yes _____ No _____ N/A
If answer is "Yes," proceed to question #11., otherwise proceed to page #1 of this form and conclude.

Consider:

Professional judgment should be used to determine the most appropriate entity. Usually, fiscal dependency on a local government, not the financial burden on the state created by legislatively established aid distribution formulas, should govern in determining the appropriate reporting entity of school districts.

Explanations:

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